

COMMENTS OF INDEPENDENT REFINERS ASSOCIATION OF AMERICA ON IMPORTS
AUCTION SCHEME PROPOSED BY THE DEPARTMENT OF THE INTERIOR

I. PRELIMINARY STATEMENT

These comments are submitted pursuant to the release of the Department of the Interior on March 20, 1968, inviting comments with respect to "a proposed system for auctioning oil import licenses" with particular reference to "the scope of such a system and . . . areas of exclusions and inclusion, date of implementation, types of auction, etc."

The tenor of the Department's release implies that an auction system has been at least tentatively decided upon and industry comments are primarily invited with regard to how such a scheme could be carried out. We have carefully reviewed the matter and have concluded that such an auction scheme would be completely unworkable in terms of accomplishment of the objectives of the Mandatory Oil Import Program. Accordingly, our comments are directed to this point rather than to the mechanics by which an auction scheme might be instituted.

This position was approved by the Board of Directors of this Association at a special meeting in Houston, Texas, on April 1, 1968, which was also attended by a large number of the members of IRAA. Furthermore, this position was approved *unanimously* by all Directors and all members there present, including independent refiners of all types, both as to size and geographical location.

II. THE OIL IMPORT PROBLEM AND THE PRESENT PROGRAM AS A SOLUTION THERETO

Because the imports auction scheme constitutes a complete revision of the present oil import program, it is in order to restate at the outset the nature of the problems which the oil import program has been intended to solve. These problems are, of course, well known to the Department and throughout the oil industry but restatement is necessary to serve as the basis for analysis of the imports auction scheme. That scheme must stand or fall as it helps to solve those problems.

A. *The Background of the Problem*

Crude oil imports into the United States mounted rapidly in the 1950s. Such foreign oil was (and is today) available at costs substantially below the cost of domestic crude oil. The net effect was severe pressure on the prices of domestic crude oil and refined products and derivatively on oil exploration. The rate of oil drilling slowed substantially threatening the maintenance of reserves essential to national security.

Because much of our domestic crude oil reserves are in strong hands, e.g. the major oil companies, the impact of low cost foreign oil was evidenced even more severely in reduced product prices than in reduced crude oil prices. As a result, the number of independent refiners—whose survival depends upon operating within the margin between raw material costs and product prices—declined alarmingly, from 203 in 1951 to 139 in 1956. This threatened another aspect of our national security—the need for widely dispersed refining plants away from vulnerable coastal areas. These are typically inland independent refining plants and their importance in our industrial mobilization base had been repeatedly affirmed.

By 1957 both the oil industry and the government were deeply concerned. A Special Cabinet Committee in 1957 reviewed the matter. It found that the mounting level of oil imports threatened our national security and it recommended import limitations to the 12.2% level which, with modifications, has continued in effect to now. These limitations were applied in mid-1957 and 1958 through the Voluntary Oil Import Program, but that program did not succeed. Its failure was not due merely to its voluntary nature, which permitted violation, but more importantly to the keen competitive imbalances which it created and which, unresolved, spelled inevitable collapse of the system.

B. *The Key Element in Its Solution—Fair Distribution of the Foreign Cost Advantage to All Refiners*

Prior to the promulgation of the present Mandatory Oil Import Program, extensive hearings were conducted by the Department of the Interior in which the nature of the problem was fully explored. The key fact emerging from those hearings and testified to repeatedly, so that it is beyond peradventure, is that the cost advantage of foreign oil spreads competitively throughout the